Evasion of tax by floating companies in Dubai

977. SHRI RAJKUMAR DHOOT: Will the Minister of FINANCE be pleased to state:

(a) whether Government are aware that during past one year many high net worth resident Indians have floated companies in Dubai's free trade zone to evade tax and slash away unaccounted cash;

(b) if so, the details thereof; and

(c) the impact of such activities on exchequer and Government's reaction thereto?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S.P ALANIMANICKAM): (a) to (c) According to statistics maintained by the Reserve Bank of India, outflows to the United Arab Emirates by Indian corporate/ partnership firms during financial year 2006-07 totalled US $141.915 million. However, there is no information to suggest that such outflows were undertaken to evade tax or were made out of unaccounted cash. Even during the course of enquiries carried by the Income Tax Department in the recent past, no instance has come to light to establish that in the past one year many high net worth resident Indians have floated companies in Dubai's free trade zone in order to evade tax and to slash away unaccounted cash.

Rise in M_3

978. SHRI M.V. MYSURA REDDY: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that M_3 has gone up to 22 per cent due to the inflow of forex (FII,FDI, NRI remittances) into the country in spite of current deficit has gone up for the past three years;

(b) whether it is possible to control inflation which is mainly on account of increases in prices of primary articles, mainly food items by simply increasing CRR, Reporate and reverse reporates; and

(c) if so, whether it is also a fact that increasing CRR, repo and reverse repo rates results in increasing interest rates in economy?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL) : (a) As per the data released by the Reserve Bank of India (RBI), broad money supply (M_3) as on July 20, 2007 on year-on-year (y-o-y) basis had increased by 21.7 per cent. Bank credit to commercial sector and net foreign exchange assets of the banking sector with y-o-y growth rates, as on July 20, 2007, at 21.9 per cent and 17.6 per cent respectively have emerged as the major sources of increase in M_3. Current account deficit, as per cent of GDP, was 0.4 per cent in 2004-05, 1.1 per cent in 2005-06 and 1.1 per cent in 2006-07.

(b) Demand-supply gap for some agricultural commodities and hardening of international prices of various commodities have been major reasons for inflation in the economy. The monetary policy measures like changes in CRR, repo rate and